Villacentres Limited

ANNUAL REPORT 1978

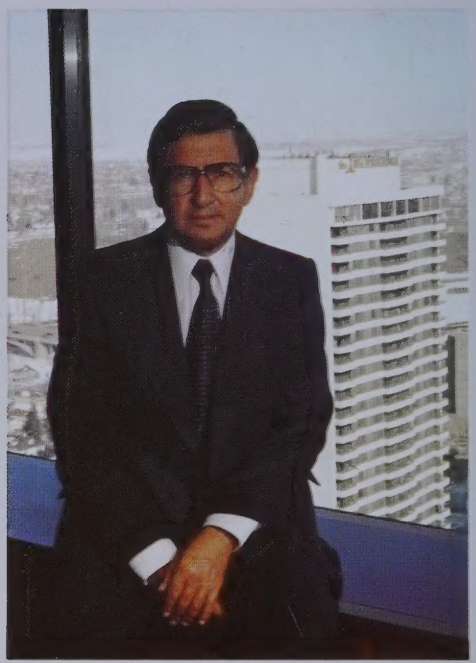
AR47

Financial Highlights

	1978	1977	Change
GROSS REVENUES	**$37,465,078**	$33,157,021	+13.0%
INCOME BEFORE PROVISION FOR INCOME TAXES	**4,139,029**	2,913,428	+42.1
PROVISION FOR INCOME TAXES	**1,989,875**	1,370,447	+45.2
NET INCOME	**2,149,154**	1,542,981	+39.3
PER SHARE	**.86**	.62	—
CASH FLOW PROVIDED BY OPERATIONS	**3,584,847**	3,843,759	– 6.7%
CASH FLOW PER SHARE	**1.43**	1.53	—
NUMBER OF SHARES OUTSTANDING	**2,504,800**	2,504,400	—

Villacentres, a Canadian public company, with headquarters in Calgary, operates nine nursing homes and three hotels in five provinces in Canada and has recently entered into oil and gas and real estate development.

To Our Shareholders



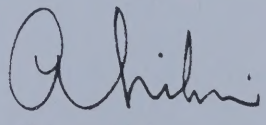
The year 1978 marked the tenth anniversary of Villacentres Limited. It is indeed gratifying to report to you that our net earnings for the year of $2,149,154 or 86 cents per share on gross revenues of $37,465,078 were the highest ever achieved by your company. This earnings performance and the continued improvement in our financial position led the Directors during the year to raise the 1978 dividend to 25 cents per share, an increase of 25 percent over the previous year.

The last ten years have been extremely rewarding ones for Villacentres. From three nursing homes in 1969, we have grown to a position of leadership in the health care and hotel industries, with twelve locations across Canada accommodating three thousand people daily. We have developed sound, disciplined management at both the corporate and unit level, backed up by management information systems that are among the most sophisticated in our business. Our consistent growth in earnings has given us a strong balance sheet, and the demand for the services and products we offer has never been higher.

Today, Villacentres is well positioned for the next phase of its corporate development - that of a mature, controlled expansion based on a healthy financial position and a sound management capability. In your company's major lines of business, nursing homes and hotels, construction of new facilities has historically taken a cyclical pattern. Recently, there have been strong indications in several provinces that Governments are encouraging a new cycle of private enterprise expansion in the health care industry. Likewise, there is strong evidence that a new period of hotel expansion is underway now that the demand for hotel rooms in many of North America's major cities has caught up with the supply caused by the overbuilding of the early seventies. Our presence in the fields of oil and gas and real estate development underlines our belief that these two areas hold extraordinary long-term promise for your company. Management will continue to monitor developments in all of these areas in order to take advantage of new opportunities.

Although 1979 will not be free of the economic uncertainties that have characterized the past few years, we enter our second decade confident in your company's ability to expand its activities and increase earnings.

While it is my privilege each year to convey the year's results to our shareholders, the achievements of 1978 and the past decade are in every sense the cumulative results of the efforts of every employee of your company. On behalf of the Board of Directors, I extend to them our gratitude for their dedication and loyalty, and to you, our shareholders, appreciation for your continuing support and encouragement.



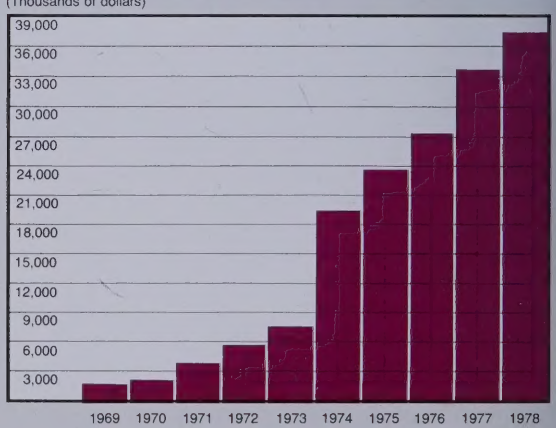
Alvin G. Libin
President and Chief Executive Officer.

Management Review and Financial Analysis

1978 was by far the most successful year in Villacentres' history, a year during which your company achieved a management and financial strength which provide the potential for a bright future. Gross revenues reached a record high of $37,465,078, an increase of 13 percent over the previous year. Earnings also reached an all time high of $2,149,154 or 86 cents per share compared with 62 cents per share in 1977, an increase of 39 percent over the previous period. The financial growth of Villacentres is clearly evidenced in the accompanying graphs which show the growth in gross revenues and net income.

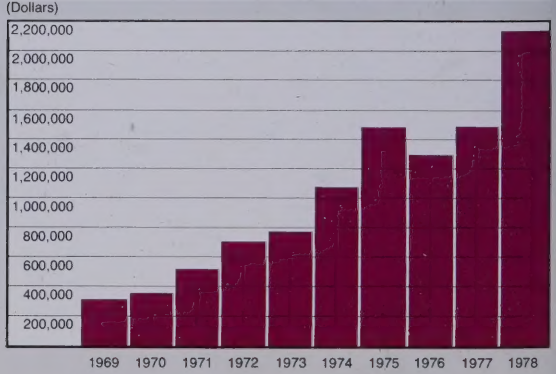
GROSS REVENUE

(Thousands of dollars)



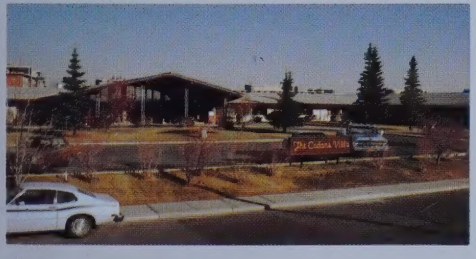
NET INCOME

(Dollars)



Cash flow from operations for the year was $3,584,847 or $1.43 per share compared to $3,843,759 or $1.53 per share the year before. The 1977 accounts reflected tax benefits from our corporate re-organization of that year and the resulting reduction of current taxes payable.

In 1978, Villacentres provided for income taxes of $1,989,875 or 48 percent of income, compared to $1,370,447 or 47 percent of income in 1977. This increase as a percentage of income is attributable primarily to the increase in provincial income tax rates in the Province of Ontario during 1978.



Cedars Villa

Your company's working capital position improved in 1978 by $2,043,968 over the previous year. The ratio of long-term debt to shareholders' equity at December 31, 1978 was 1.24 to 1. Shareholders' equity amounted to $8,872,192 at the end of the year after paying dividends in the amount of $626,176. This is an increase of 20.5 percent over the previous year. There were 2,504,800 common shares outstanding at the end of the year.

After-tax return on shareholders' equity was 29 percent, and our annual compounded growth rate in earnings has exceeded 20 percent over the last ten years. For further information please refer to the Ten Year Statistical Review.

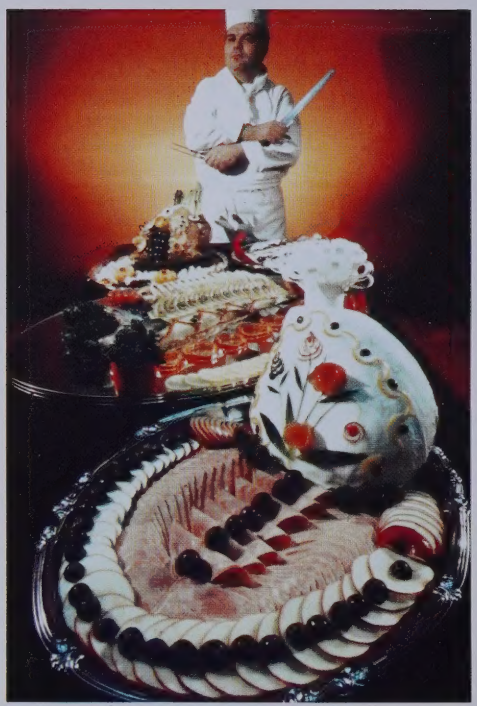
NURSING HOME DIVISION

The nursing home division continues to be the underlying foundation of Villacentres. 1978 performance in this division supports our belief that the requirements of the senior citizen segment of our population are best fulfilled by the private sector which has shown it can provide continuing care and service of excellent quality. Gross revenues in the nursing home division increased by 12 percent over the previous year due to increased occupancies and favourable rate adjustments. Because of this and management's careful cost controls, earnings in this divison again improved. With our continuing program of up-grading and modernization, our nursing homes continue to be in first class physical condition and appearance. Although the termination in 1978 of the anti-inflation program in Canada may result in strong upward pressure on salaries and wages which previously were subject to controls, we believe that the government funding programs which control revenue in the majority of our locations must provide the necessary funds to offset these increases. The management of your company will continue to take a very active role in pursuing individually and jointly with various health care associations across Canada the necessary per diem funding for our industry. We are confident that these efforts will enable this division to continue to perform satisfactorily.

The Boardroom, Hotel Plaza II

HOTEL DIVISION

In 1978, combined occupancies in the hotel division again made a substantial



The Greenery, Hotel Plaza II

move upward to 75.5 percent from 70.0 percent in 1977. In the highly competitive Toronto market, Hotel Plaza II finished the year at 81.5 percent. These occupancy improvements which reflect the quality of our locations and of our referral system, coupled with a steady growth in the average rate and increased demand in our food and beverage facilities at all locations, contributed to an increase over the previous year of 15 percent in this division's gross revenues. Operating expenses, through careful control, were reduced as a percentage of gross revenues leading to an even greater contribution from this division than in the past. In addition to our continuing property maintenance programs, your company has also created some new concepts in several individual food and beverage outlets which will become operational during 1979 and which will provide a greater return. We are confident about this division's ability to continue its pattern of earnings improvement.

JOINT VENTURES

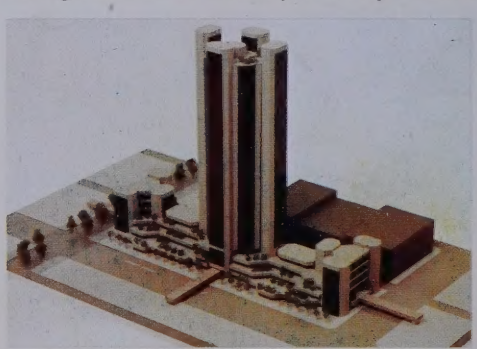
Our investment in joint ventures, recorded in these financial statements at equity, represents our net investment in Villacentres Properties, Villa Oil & Gas, Acadia Valley Gas Processing, and Control Minerals. For your information, a condensed summary of our share of the assets and liabilities of these joint ventures is as follows:

ASSETS	
Current Assets	$ 66,391
Property Held for Development	930,330
Fixed Assets	694,405
Other Assets	88,323
	$1,779,449

LIABILITIES	
Current Liabilities	$ 208,271
Agreements & Mortgages Payable	624,147
Long-Term Debt	311,994
Equity	635,037
	$1,779,449

REAL ESTATE

Villacentres Properties was formed to seek out sound real estate investment opportunities with initial activities to be concentrated in reasonable proximity to our Calgary base. During 1978, Villacentres Properties, through a joint venture with a prominent Calgary developer entered into an agreement to develop Barclay Towers, a



Barclay Towers - Denver, Colorado

mixed-use project comprised of 240 highrise condominium units, 120,000 square feet of office and retail space, and parking for 400 cars in Denver, Colorado. The proposed site occupies a block of land within the heart of the downtown core of Denver along the west side of Larimer Street between 16th and 17th Streets. Construction, which will take approximately 18 months, is scheduled to commence in November 1979.

In Calgary, 43,000 square feet of land have been assembled in one of the city's most fashionable districts. The site, on which we will develop Riverglen, a 108 unit condominium, is a proven market location situated along the Elbow River at 4th Street, one of Calgary's main arteries. Construction is scheduled to commence in the fall of 1979.

Riverglen - Calgary

OIL AND GAS

During 1978, through our joint venture interests, we participated in the drilling of 20 wells, all in Alberta, which resulted in nine gas wells and two oil wells. Details of the activity are as follows:

	Gas	Oil	Dry	Average Net Working Interest
Exploratory	6	2	9	6.2%
Development	3	—	—	28.7%
	9	2	9	

The land holdings of the joint ventures amounted to approximately 95,760 gross acres or 19,800 net acres at December 31, 1978. In addition, we participate in a small program in Louisiana which is presently acquiring oil and gas prospects.

Through Villa Oil & Gas, we also participate in the ownership and operation of a gas processing plant in Acadia Valley, Alberta. The plant was completed in November of 1978 and has contracts to process 4,900,000 cubic feet of natural gas per day.

We believe that the energy industry has a very favourable long-term outlook and we will continue to invest in the development of that industry to the fullest extent possible.

A producing oilwell

Your company enters 1979 with a strong management team and the information systems necessary to ensure control of your expanding company in all phases. In areas such as finance, personnel, and operations, we have been successful in attracting individuals from some of the leading companies in North America. Although inflation remains with us as we enter the new year, the results achieved by the Villacentres team in 1978 give us the confidence to set your company's goals substantially higher for 1979.

Hotel Division Management Seminar

Consolidated Balance Sheet

ASSETS

	December 31	
	1978	**1977**
Current assets:		
Cash and short-term deposits	**$ 2,215,303**	$ 238,597
Accounts receivable	**2,385,686**	2,194,379
Inventory of supplies, at cost	**440,298**	410,589
Prepaid expenses	**139,981**	144,048
	5,181,268	2,987,613
Fixed assets, at cost:		
Land improvements	**1,695,374**	1,695,374
Buildings	**13,228,663**	13,228,663
Furniture and equipment	**7,642,040**	7,523,595
Leasehold improvements	**3,019,322**	2,997,676
	25,585,399	25,445,308
Less: Accumulated depreciation and amortization	**4,892,855**	3,864,596
	20,692,544	21,580,712
Investment in joint ventures	**635,037**	226,571
Deferred costs, less amortization	**1,016,129**	1,231,832

APPROVED BY THE BOARD:

ALVIN GERALD LIBIN, Director

DAVID LOUIS LAVEN, Director

	$27,524,978	$26,026,728

LIABILITIES

	December 31	
	1978	**1977**
Current liabilites:		
Bank loans	**$ 78,023**	$ 475,000
Accounts payable and accrued liabilities	**2,093,953**	2,070,592
Income taxes payable	**1,513,466**	220,914
Unearned revenue	**105,813**	130,776
Long-term debt due within one year	**340,385**	1,084,671
	4,131,640	3,981,953
Long-term debt (Note 2)	**11,004,049**	11,220,044
Deferred income taxes	**3,517,097**	3,476,597

SHARE HOLDERS' EQUITY

Share capital (Note 3):		
Authorized —		
4,000,000 common shares without nominal or par value		
Issued —		
2,504,800 common shares (1977 - 2,504,400)	**1,674,181**	1,673,101
Retained earnings	**7,198,011**	5,675,033
	8,872,192	7,348,134
Commitments (Note 5)		
	$27,524,978	$26,026,728

Consolidated Statement Of Income And Retained Earnings

	Year ended December 31	
	1978	**1977**
Revenue	**$37,465,078**	$33,157,021
Operating expenses	**30,963,696**	27,697,763
Income from operations before the following charges	**6,501,382**	5,459,258
Depreciation and amortization	**1,017,227**	985,067
Interest —		
On long-term debt	**961,254**	1,127,502
Other	**5,906**	96,668
Amortization of deferred costs	**293,432**	303,026
Share in loss of joint ventures	**84,534**	33,567
	2,362,353	2,545,830
Income before income taxes	**4,139,029**	2,913,428
Provision for income taxes:		
Current	**1,949,375**	391,329
Deferred	**40,500**	979,118
	1,989,875	1,370,447
Net income for year	**2,149,154**	1,542,981
Retained earnings at beginning of year	**5,675,033**	4,632,932
Deduct dividends paid	**626,176**	500,880
Retained earnings at end of year	**$ 7,198,011**	$ 5,675,033
Earnings per share	**$ 0.86**	$ 0.62

Consolidated Statement Of Changes In Financial Position

	Year ended December 31	
	1978	**1977**
Financial resources were provided by:		
Operations —		
Net income for the year	**$ 2,149,154**	$ 1,542,981
Add: Charges not requiring a current outlay of funds —		
Depreciation and amortization	**1,017,227**	985,067
Deferred income taxes	**40,500**	979,118
Amortization of deferred costs	**293,432**	303,026
Share of loss of joint ventures	**84,534**	33,567
Funds provided by operations	**3,584,847**	3,843,759
Loan proceeds	**2,000,000**	—
Proceeds from issue of shares	**1,080**	—
	5,585,927	3,843,759
Financial resources were used for:		
Additions to fixed assets	**129,059**	839,806
Repayment of long-term debt, and change in current portion	**2,215,995**	1,400,051
Deferred costs	**77,729**	14,780
Dividends paid	**626,176**	500,880
Advances to joint ventures	**493,000**	246,000
	3,541,959	3,001,517
Increase in working capital	**2,043,968**	842,242
Working capital (deficiency) at beginning of year	**(994,340)**	(1,836,582)
Working capital (deficiency) at end of year	**$ 1,049,628**	$ (994,340)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 1978

1. Significant accounting policies:

(a) Basis of consolidation—

The consolidated financial statements include the accounts of Villacentres Limited and its wholly-owned subsidiaries.

The Company has interests, ranging from 14% to 85%, in oil and gas and property development joint ventures, all of which have been accounted for by the equity method.

(b) Depreciation and amortization—

Depreciation and amortization charges are calculated on the straight-line basis at rates which will fully depreciate the assets over their estimated useful lives. These rates are:

Buildings	— 2-1/2% per annum
Furniture and equipment	—6-2/3% per annum
Leasehold improvements	— Over the initial term of the lease plus one renewal period, not to exceed twenty five years.

(c) Deferred costs —

These costs are related primarily to the development and opening of a new hotel and include operating losses incurred during the first nine months following opening. The costs are being amortized over periods from five to seven years.

2. Long-Term debt:

	1978	1977
Mortgages payable at interest rates ranging from 6¾% to 10% (averaging approximately 9¼%) repayable in monthly instalments of $91,000, including interest, to 1984 and at lesser amounts thereafter to 2003	**$ 8,844,434**	$ 9,110,050
Term bank loans, evidenced by demand notes and secured by a first floating charge debenture on all assets of Villacentres Limited repayable in monthly instalments of $54,168 to August 31, 1980 and $20,833 thereafter, plus interest at prime plus 1%	—	2,366,635
Term bank loan, evidenced by demand note and secured by a second mortgage against certain fixed assets, repayable in annual instalments of $144,000 plus interest at prime plus 1%	—	328,000
Term bank loan, evidenced by demand note and supported by a first floating charge on all assets of Villacentres Limited and repayable in monthly instalments of $18,520 plus interest at prime plus 1% commencing in January 1980	**2,000,000**	—
Term loan, non-interest bearing, repayment terms being negotiated	**500,000**	500,030
	11,344,434	12,304,715
Less: Portion due within one year	**340,385**	1,084,671
	$11,004,049	$11,220,044

Minimum principal payments during the next five years:

1979 — $340,385
1980 — $585,349
1981 — $592,803
1982 — $623,787
1983 — $659,412

3. **Share capital:**
Pursuant to an employees' stock option plan, 25,800 shares are reserved for future issuance. At December 31, 1978, options for 10,000 shares at $2.925 each expiring September 16,1980, 1,600 shares at $2.70 each expiring January 14, 1982 and 1,000 shares at $4.00 each expiring January 1, 1983, had been granted and were outstanding.

4. **Patients' trust accounts:**
Villacentres Limited administers trust funds on behalf of various residents of the nursing homes. At December 31, 1978 these trust funds amounted to $190,177, and are not included in these financial statements.

5. **Commitments:**
The subsidiary is obligated under lease agreements which expire on various dates from 1988 to 1996 and which contain renewal options and percentage-of-sales clauses. Minimum annual rentals payable by the subsidiary during each of the next five years are approximately $2,020,000.

6. **Amounts paid to directors and senior officers:**
No remuneration was paid to the directors of the Company in their capacity as directors. Amounts paid to senior officers (one of whom was a director), deemed by the Companies Act of Alberta to include the five highest paid employees, aggregated $275,000 in 1978 ($263,000 in 1977).

7. **Price and income controls:**
The Company was subject to, and believes it has complied in all material respects with, controls on prices, profits, compensation and dividends instituted by the Federal Government in the Anti-Inflation Act effective October 14, 1975.

AUDITORS' REPORT

To the Shareholders of Villacentres Limited:

We have examined the consolidated balance sheet of Villacentres Limited as at December 31, 1978 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1978 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price Waterhouse & Co.
Chartered Accountants

February 23, 1979
Calgary, Alberta

Ten Year Statistical Review

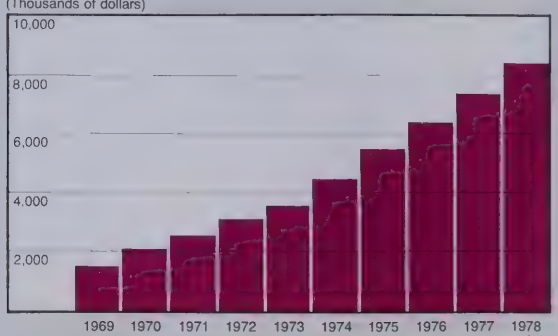
YEARS ENDED DECEMBER 31

	1978
NURSING HOME STATISTICS	
Number of rated beds (at Dec. 31)	2,100
Available bed days	753,725
Occupancy bed days	722,997
Percentage rate of occupancy	95.9%
Gross revenue per bed day of occupancy	$ 28.75
HOTEL STATISTICS	
Number of rooms (at Dec. 31)	863
Available rooms	314,995
Occupied rooms	237,769
Percentage rate of occupancy	75.5%
Average rate per occupied room	$ 35.18
FINANCIAL INFORMATION	
Gross revenue	$37,465,078
Income before interest, depreciation, amortization and income taxes	$ 6,501,382
Net income	$ 2,149,154
Dividends paid per share	$ .25

Data subsequent to 1973 reflect the acquisition of a subsidiary.

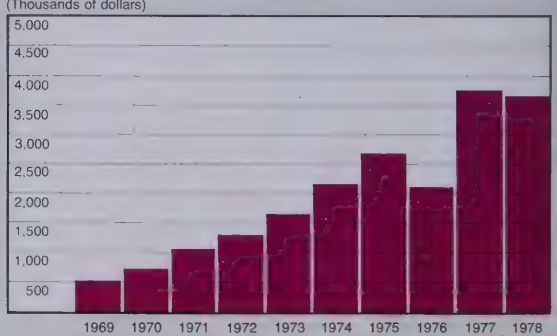
SHAREHOLDERS' EQUITY

(Thousands of dollars)



CASH FLOW FROM OPERATIONS

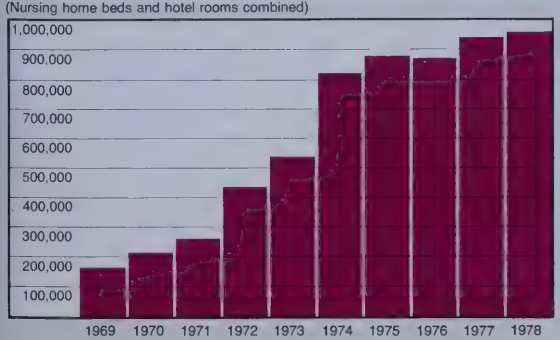
(Thousands of dollars)



1977	1976	1975	1974	1973	1972	1971	1970	1969
2,100	2,100	2,100	2,100	1,982	1,334	1,334	880	470
753,725	754,692	742,557	687,794	552,488	465,032	277,335	209,240	164,700
711,493	724,247	712,855	656,128	535,029	441,099	268,511	201,352	164,462
94.4%	96.0%	96.0%	95.4%	96.8%	94.8%	96.8%	96.2%	99.8%
26.28	24.40	21.18	16.93	14.05	13.48	13.46	12.53	11.72
863	863	604	604					
314,471	245,714	221,555	221,555					
220,315	144,726	158,773	163,255					
70.0%	58.9%	71.7%	73.7%					
32.73	32.65	31.25	27.10					
33,157,021	27,001,359	23,989,652	19,385,973	7,517,066	5,947,761	3,613,012	2,523,272	1,926,373
5,459,258	4,619,854	4,926,919	3,823,375	2,636,452	2,235,389	1,426,026	1,062,946	834,799
1,542,981	1,289,893	1,558,903	1,075,719	790,924	705,301	523,221	381,172	329,172
.20	.20	.20	.20	.14	.11	.06	.015	—

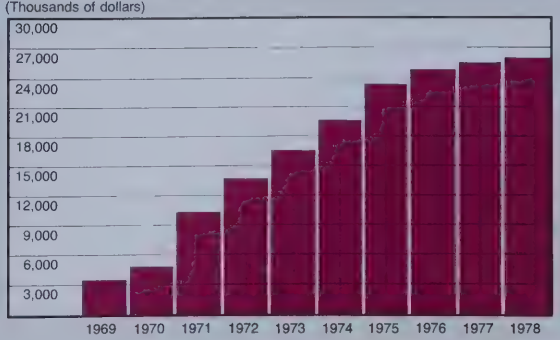
OCCUPIED ACCOMMODATION

(Nursing home beds and hotel rooms combined)



INVESTMENT IN FIXED ASSETS, AT COST

(Thousands of dollars)



Ten Year Statistical Review

YEARS ENDED DECEMBER 31

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Percentage rate of occupancy	75.5%
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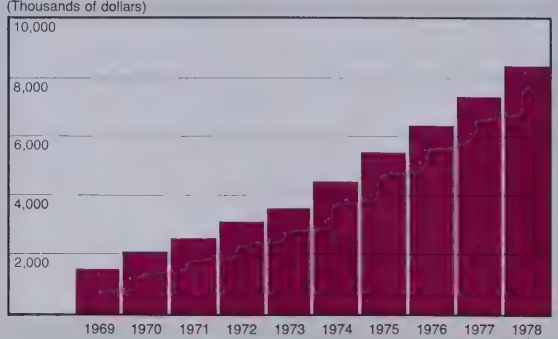
Income before interest, depreciation, amortization and income taxes	$ 6,501,382
Net income	$ 2,149,154
Dividends paid per share	$ .25

Data subsequent to 1973 reflect the acquisition of a subsidiary.

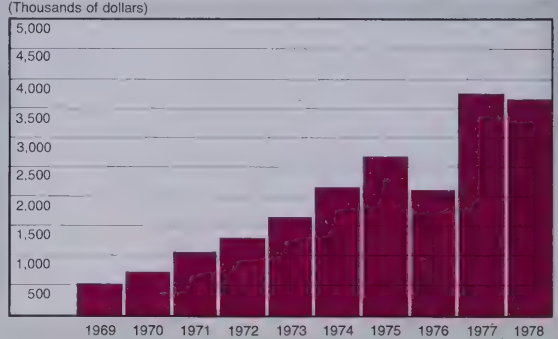
SHAREHOLDERS' EQUITY

(Thousands of dollars)



CASH FLOW FROM OPERATIONS

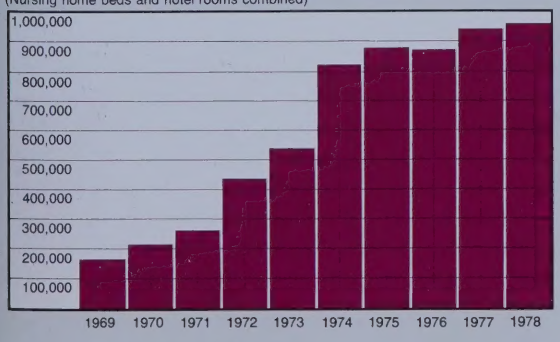
(Thousands of dollars)



1977	1976	1975	1974	1973	1972	1971	1970	1969
2,100	2,100	2,100	2,100	1,982	1,334	1,334	880	470
753,725	754,692	742,557	687,794	552,488	465,032	277,335	209,240	164,700
711,493	724,247	712,855	656,128	535,029	441,099	268,511	201,352	164,462
94.4%	96.0%	96.0%	95.4%	96.8%	94.8%	96.8%	96.2%	99.8%
26.28	24.40	21.18	16.93	14.05	13.48	13.46	12.53	11.72
863	863	604	604					
314,471	245,714	221,555	221,555					
220,315	144,726	158,773	163,255					
70.0%	58.9%	71.7%	73.7%					
32.73	32.65	31.25	27.10					
33,157,021	27,001,359	23,989,652	19,385,973	7,517,066	5,947,761	3,613,012	2,523,272	1,926,373
5,459,258	4,619,854	4,926,919	3,823,375	2,636,452	2,235,389	1,426,026	1,062,946	834,799
1,542,981	1,289,893	1,558,903	1,075,719	790,924	705,301	523,221	381,172	329,172
.20	.20	.20	.20	.14	.11	.06	.015	—

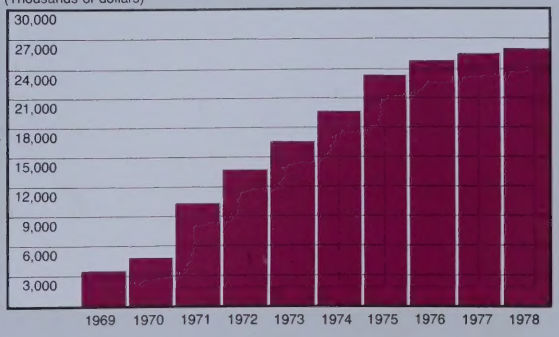
OCCUPIED ACCOMMODATION

(Nursing home beds and hotel rooms combined)



INVESTMENT IN FIXED ASSETS, AT COST

(Thousands of dollars)



DIRECTORS

Alvin G. Libin, President
& Chief Executive Officer.

David L. Laven, Partner,
Laven & Co. Calgary.

W.A. Howard Q.C. Partner,
Howard, Dixon, Mackie
& Forsyth, Calgary.

Martin Cohos, Partner
Cohos Evamy & Partners, Calgary

Monte P. Nathanson, President
United Equities Ltd. Winnipeg

Irving Schwartz, President
Schwartz & Co. Sydney

OFFICERS

Alvin Gerald Libin,
President

Lee A. Berthelsen,
Vice President

David Hill,
Secretary/Treasurer

David L. Laven
Vice President

TRANSFER AGENT

Canada Permanent Trust
Calgary, Vancouver,
Toronto, Montreal
Halifax

AUDITORS

Price Waterhouse & Co.,
Calgary

BANKERS

Toronto Dominion Bank

LISTING

Toronto Stock Exchange

LEGAL COUNSEL

Howard, Dixon, Mackie
& Forsyth, Calgary.

REGISTERED HEAD OFFICE

2900 Calgary Place One
330 Fifth Avenue S.W.
Calgary, Alberta T2P 0L4

ANNUAL MEETING

FRIDAY
April 20, 1979 11:00 a.m.
The International Hotel
220-4th Avenue S.W.
Calgary, Alberta T2P 0H8

LOCATIONS

Nursing Homes

CEDARS VILLA
Calgary, Alberta

TUXEDO VILLA
Winnipeg, Manitoba

OAKVIEW VILLA
Winnipeg, Manitoba

BAYVIEW VILLA
Toronto, Ontario

GUILDWOOD VILLA
Toronto, Ontario

OAKRIDGE VILLA
Toronto, Ontario

MOUNT ROYAL VILLA
Montreal, Quebec

SPRING GARDEN VILLA
Sydney, Nova Scotia

FAIRVIEW VILLA
Halifax, Nova Scotia

Hotels

PARK PLAZA HOTEL
Toronto, Ontario

HOTEL PLAZA II
Toronto, Ontario

INTERNATIONAL HOTEL
Calgary, Alberta